



Interoffice Memorandum

TO File
 STAT FROM DATE 4 August 1964
 SUBJECT Varian Associates
 Procurement of Thirty (30) each AIL P/N's 216013-1, 216012-1, 216031-1

1. Date of Report
 3 August 1964

2. Prime Contract
 Applicable (Several)

3. Proposed Subcontract
 a. Type: Firm Fixed Price
 b. Description: 90 Backward Wave Oscillators
 c. Estimated Dollar Value: \$219,900.00

4. Proposed Subcontractor
 Varian Associates
 Palo Alto, California

5. Name and Title of Personnel Contacted
 a. Varian: STAT
 b. U.S. Navy

6. Extent of Competition
 Follow-on to a competitively bid order.

7. Labor Rates

Reference is made to Audit Report PC 7560 dated 31 July 1964 from Mr. C.H. Oddson, U.S. Navy Auditor at Varian Associates. This is to advise that the following rates included in Varians proposal are approved:

(A) Engineer A	\$6.80	(B) Sr. Test Technician	\$4.30
(A) Assembler B	3.20	(A) Jr. Tube Technician	3.60
(A) Tool & Die maker	5.10	(A) Exp. Tube Assembler	3.50
(A) Sr. Tube Technician	4.90	(A) Sr. Test Technician	4.30
(A) Tube Technician	4.40	(B) Tester B	3.50

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8. Overhead Rate

Acceptable overhead rates per Navy Auditor are as STAT
follows:

70% for Group (A) above.
190% for Group (B) above.

9. G&A Rate

considers 33% reasonable for estimating purposes STAT

10. Royalty

considers 0.5% of the proposed 5.5% royalty as STAT
unallowable. The 5% of selling price pending results of
negotiation with a French Company. Actual liability is not
now determinable.

11. Following is Varian cost breakdown supporting their proposals
for each tube:

<u>AIL P/N 216013(VA-162K)</u>					
	<u>CLASSIFICATION</u>	<u>RATE</u>	<u>HOURS</u>	<u>AMOUNT</u>	<u>PER AUDIT</u> <u>QUESTIONABLE</u>
(A)	Engineer A	\$6.80	3.38	\$23.00	
(A)	Tool & Die Maker	5.10	6.0	30.00	
(A)	Sr. Tube Tech.	4.90	10.0	49.00	
(A)	Tube Tech.	4.40	10.0	44.00	
(A)	Sr. Test Tech.	4.30	8.07	35.00	
(B)	Sr. Test Tech.	4.30	8.07	35.00	
(A)	Jr. Tube Tech.	3.60	2.0	7.00	
(B)	Tester B	3.50	4.32	15.00	
(A)	Exp. Tube Assem.	3.50	4.0	14.00	
(A)	Tube Assem. B	3.20	4.0	13.00	
				<u>\$265.00</u>	<u>\$265.00</u> <u>---</u>
 Overhead:					
	70% of (A)			151.00	151.00 ---
	190% of (B)			<u>95.00</u>	<u>95.00</u> <u>---</u>
	Total Overhead			\$246.00	\$246.00 ---
	Material			195.00	191.00 4.00(1)
	Warranty			210.00	210.00 ---
	Royalties			<u>93.00</u>	<u>---</u> <u>93.00(2)</u>
	Total Cost of Sales			\$1,009.00	\$912.00 \$97.00
	G&A			<u>394.00</u>	<u>301.00</u> <u>93.00(3)</u>
	TOTAL COST			<u>\$1,403.00</u>	<u>\$1,213.00</u> <u>\$190.00</u>

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AIL P/N 216012(VA-163K)			PROPOSED	PER	QUESTIONABLE
CLASSIFICATION	RATE	HOURS	AMOUNT	AUDIT	
(A) Engineer A	\$6.80	4.38	\$30.00		
(A) Tool & Die					
Maker	5.10	8.0	41.00		
(A) Sr. Tube Tech.	4.90	18.0	88.00		
(A) Tube Tech.	4.40	15.0	66.00		
(A) Sr. Test Tech.	4.30	8.07	35.00		
(B) Sr. Test Tech.	4.30	8.07	35.00		
(A) Jr. Tube Tech.	3.60	3.0	11.00		
(B) Tester B	3.50	4.32	15.00		
(A) Exp. Tube Assem	3.50	8.0	28.00		
(A) Tube Assem. B	3.20	8.0	26.00		
Total Labor			\$395.00	\$395.00	---
Overhead:					
70% of (A)			228.00	228.00	---
190% of (B)			95.00	95.00	---
Total Overhead			\$323.00	\$323.00	---
Material			231.00	226.00	5.00(1)
Warranty			295.00	295.00	---
Royalties			125.00	---	125.00(2)
Total Cost of Sales			\$1,349.00	\$1,219.00	130.00
G&A			526.00	402.00	124.00(3)
TOTAL COST			\$1,875.00	\$1,621.00	\$254.00

AIL P/N 216031(VA-164K)			PROPOSED	PER	QUESTIONABLE
CLASSIFICATION	RATE	HOURS	AMOUNT	AUDIT	
(A) Engineer A	\$6.80	10.38	\$70.00		
(A) Tool & Die					
Maker	5.10	32.0	163.00		
(A) Sr. Tube Tech.	4.90	56.0	274.00		
(A) Tube Tech.	4.40	48.0	211.00		
(A) Sr. Test Tech.	4.30	8.07	35.00		
(B) Sr. Test Tech.	4.30	8.07	35.00		
(A) Jr. Tube Tech.	3.60	8.0	29.00		
(B) Tester B	3.50	4.32	15.00		
(A) Exp. Tube Assem.	3.50	40.0	140.00		
(A) Tube Assem. B	3.20	24.0	77.00		
Total Labor			\$1,049.00	\$1,049.00	---
Overhead:					
70% of (A)			700.00	700.00	---
190% of (B)			95.00	95.00	---
Total Overhead			\$795.00	\$795.00	---

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<u>CLASSIFICATION</u>	<u>RATE</u>	<u>HOURS</u>	<u>PROPOSED AMOUNT</u>	<u>PER AUDIT</u>	<u>QUESTIONABLE</u>
Material			\$277.00	\$260.00	\$17.00(1)
Warranty			430.00	430.00	---
Royalties			260.00	---	260.00(2)
Total Cost of Sales			\$2,811.00	\$2,534.00	\$277.00
G&A			1,096.00	836.00	260.00(3)
TOTAL COST			\$3,907.00	\$3,370.00	\$537.00

- (1) Material Questioned - Using Varian's estimated yield factors. Scrap and spoilage (reciprocal of yield) was computed and applied to the base material, thereby resulting in discrepancies between quoted material costs.
- (2) Royalties- This liability was questioned on the basis of not being determinable at this time.
- (3) G&A - The proposed rate of 39% contained certain unallowable expenses as follows:

Advertising Shows & Exhibits	0.5%
Sales Expense	0.5
Donations, foreign operations expense	0.5
R&D in excess of stipulated allowable amount	4.0
	<u>5.5%</u>

Rate of 33% was applied to allowable costs.

12. It is recommended that the costs Per Audit as shown above be used as a basis for arriving at fair and reasonable prices for subject items.

STAT

Cost/Price Analyst

JZR/mz